THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

2014 Annual Report

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Chairman Report

Don Hooge

Chairman

This past year proved to be another year of substantial growth in all three lines of business and in all five provinces.

The Management Team and Board of Directors embarked on an aggressive three year strategic plan that will see the company through several expense mitigating initiatives, followed by continued effort of staff to create new and improved products and wordings. In addition, the company worked extensively towards the development of our Own Risk & Solvency Assessment or ORSA.

Although results were not what we had budgeted for in 2014, the company still produced a profit, which marginally increased our retained earnings. The MCT (minimum capital test) now stands at a strong 313.30%.

We are sad to say goodbye to one of our longest standing directors. This was Daryl Cherry's final year as he is retiring from the Board of Directors. His dedication and valuable contributions started in the 1980s and saw the company grow from $1M in Gross Written Premium to close to $70M as of today.

On behalf of the Board of Directors we would like to thank our network of supportive brokers. Through these relationships, we continue to service our brokers needs and in turn our policyholders. We would also like to express our appreciation to Management and Staff. We recognize the importance of their commitment and dedication to have successfully guided this company through an extremely busy year.

With new initiatives on the horizon, it is important to keep our Mission Statement at the forefront of our ventures:

"Creating innovative insurance solutions and responding with unparalleled claims service for the mutual benefit of our customers, key partners, and employees."

May 2015 be a prosperous year as we continue to grow our business.

President & Chief Executive Officer Report

Darin Lord Nessel, CIP

President & Chief Executive Officer

The Mutual Fire Insurance Company of British Columbia experienced a memorable, yet challenging year in 2014. Each line of business; Farm, Commercial, and Personal Lines, experienced excellent growth consistently throughout the year. While such growth is to our benefit, 2014 also brought higher than anticipated claims results that have impacted our overall results for the year.

For several years now, the industry has been working to better understand risks associated with severe weather incidents and the effects of an aging infrastructure. Numerous changes have been initiated and in order to be prepared for the future, many more changes will inevitably take place as the industry responds to the new learnings. The current challenges facing the industry are overall effects of pricing and coverages on the property & casualty insurance product. Excessive costs and restrictive underwriting guidelines to the end user will inevitably, given time, bring more regulation and possible exiting of companies from some jurisdictions.

In today's environment, I see three factors affecting the role of underwriting; how technology is being used, how new risks are emerging around technology and relying too much on technology. Based on needs and expectations of consumers in this ever-changing world, we cannot forget about the human experience. People are of the utmost importance to our staff, management and Board of Directors at Mutual Fire Insurance and we must not and will not forget that insurance is a relationship business.

Mutual Fire has now developed our Own Risk and Solvency Assessment (ORSA). Through ORSA, directors, management and staff are embarking down the path of managing risk throughout every aspect of the organization. The movement from traditional risk management to Enterprise Risk Management (ERM) has been seen as a positive step forward and because of this, we are now proactively assessing risk as opposed to reacting to risk events.

The question comes up time and time again in the insurance industry, "how can insurance carriers differentiate themselves?" My answer is straightforward and involves two areas of focus. The first is service. We can always improve our underwriting and delivery of our products. The second is "stick to what you know best" and for The Mutual Fire Insurance Company of British Columbia, that is Farm Insurance. We continue to grow our farm product and none more than right here where our roots are, British Columbia.

We will continue to target farm business in all jurisdictions as we continue with the re-structuring of our farm department and the enhanced development of our farm product.

Insurers are part of a much broader picture, in that we are all part of a global economy, it is becoming clearer all the time, brokers are looking for local underwriting expertise. Our brokers are looking for carriers with products that continue to evolve to meet customer's needs, yet still respect the tradition of farming in Canada. Mutual Fire Insurance is well into the process of developing new equine products and updating our farm and personal lines wordings. By providing local underwriting expertise and expanding our farm product offerings, our brokers continue to see value in our organization and continue to support us as their go-to farm market.

For this upcoming year we continue to see growth opportunities in all provinces, especially with respect to farm business. Investment income is expected to remain flat, inevitably there will be catastrophic weather events and it is expected soft market conditions will continue. It has become increasingly clear in order to continue to be successful, we maintain our underwriting integrity and our focus on cultivating a high performance culture, thereby empowering staff by recognizing their contributions and providing meaningful opportunities for development and advancement.

The Mutual Fire Insurance Company of British Columbia has ambitious plans to remain profitable and enhance the company through the implementation of our strategic initiatives. I believe we have the right team in place to bring Mutual Fire forward in 2015 and beyond, to achieve our ambitious and realistic goals. I anticipate this year to be a landmark year for Mutual Fire Insurance and look forward to sharing the results with you in February 2016.

Finance Report

Jason Christopherson, CPA, CGA, BAccS

Chief Financial Officer

Last year presented both promise and challenge to The Mutual Fire Insurance Company of British Columba. Our commitment and focus on improvements in operational efficiencies and strategic investments has made Mutual Fire Insurance a strong competitor in the regions in which we are licensed. We continue to make significant investments in our people and systems in order to provide the highest level of service while striving to be better.

The efforts of the Mutual Fire Insurance's team resulted in significant growth in all lines of business. Gross premiums increased by 29% over 2013, while net premiums improved 21%. This was premium growth we have not experienced since 2011. Half of this growth, or more specifically 48%, came from two new programs. These new books of business are structured with significant reinsurance, thus reducing Mutual Fire's claims risk. Both of these books of business resulted in increased commission income from $509,000 in 2013 to over $1,854,000. Aside from these opportunities, the remaining overall growth was a result of rate action and organic growth from our many broker partners. Overall net revenues grew approximately 19% to $49,781,000 from $41,962,000 in 2013.

Our brokers and policyholders continue to support Mutual Fire as we support them through paying their claims. Frequency and severity played a role in our increased claims costs. Net claims incurred rose from $20,608,000 in 2013 to over $30,157,000 last year, an increase of $9,548,000 or 46%. This resulted in a net loss ratio of 63%. Last year also marked a year where Mutual Fire experienced 19 excess claims, up from 9 in 2013. In addition, a hail storm in Airdrie, Alberta saw the second straight year that Mutual Fire experienced a catastrophic event. This single event resulted in over 80 claims, ultimately contributing to the higher than normal net losses.

The year ended with an underwriting loss of $1,939,000 resulting in a combined ratio of 104.44%, up from 91.07% in 2013. In December 2014 alone, we experienced an underwriting loss of $2,015,000.

The December results accounted for over 100% of the underwriting loss. A significant contributor to these results where 11 claims exceeding $75,000 in December, resulting in the largest underwriting loss in a single month on record.

Investment income grew 25% to $2,474,000 compared to $1,971,000 in 2013. This as a result of increased capital investments and realized gains of $715,000 compared to $517,000 in 2013. While comparing year over year investment yields our portfolio increased to 3.43% from 3.21%. Mutual Fire Insurance's investment policy remains conservative as we preserve capital while maintaining a steady and continued growth in income.

Overall return on equity in 2014 was 1.06% down from 14.57% in 2013. The underwriting results being the major driver in this decline.

With our continued focus on improving operational efficiencies, Mutual Fire will move into 2015 with a solid strategic plan that will see the restructuring of internal processes and implementation of a number of technological improvements. Through these plans, we will better our internal productivity, which in turn will promise timely more valued service to our brokers and policyholders. That being said, I too believe our team is focused and properly structured to provide favorable results in 2015 to our customers, key partners and employees.

Company Profile

HEAD OFFICE

201-9366 200A Street
Langley, BC Canada
V1M 4B3

Phone: 604- 881-1250
Toll Free: 1-866-417-2272

AUDITORS

KPMG Enterprise
777 Dunsmuir Street
Vancouver, BC Canada
V7Y 1K3

ACTUARY

Baron Insurance Services Inc.
206 Laird Dr. East
York, ON Canada
M4G 3W4

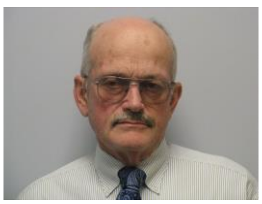
Board of Directors

Don Hooge
Chairman

Jake Bredenhof
Vice Chairman

Bill Adams
Treasurer

Mike Bose
Director



Daryl Cherry
Director

John Pruim
Director

No Photo available

John Peterson
Director

Tako van Popta
Director

AUDIT COMMITTEE
Bill Adams (Chairman), Jake Bredenhof,
Tako van Popta

CONDUCT REVIEW COMMITTEE
Daryl Cherry (Chairman), Mike Bose,
Tako van Popta

INVESTMENT COMMITTEE
Mike Bose (Chairman), Don Hooge,
Jake Bredenhof, John Pruim

ERM COMMITTEE
Mike Bose (Chairman), Don Hooge, Bill Adams,
Tako van Popta

Financial Statements

(Expressed in thousands of dollars)

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

Year ended December 31, 2014

Management Statement

The financial statements are the responsibility of management and have been prepared in conformity with International Financial Report Standards including the accounting requirements of the Insurance Act of British Columbia and the Financial Institutions Act. In the opinion of management, the financial statements fairly reflect the financial position, results of operations and cash flows of The Mutual Fire Insurance Company of British Columba within reasonable bounds of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Company. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy of operation of the control systems is monitored on an ongoing basis by management.

The Board of Directors is responsible for approving the financial statements. It has established an Audit Committee, comprised of directors who are neither officers nor employees of the Company who meet with management, the actuary and external auditors, all of whom have unrestricted access and the opportunity to have private meetings with the Audit Committee, to review the financial statements. The Audit Committee then submits its report to the Board of Directors recommending approval of the financial statements.

The Financial Institutions Commission makes a bi annual examination and inquiry into the affairs of the Company as deemed necessary to ensure that the Company is in sound financial condition and that the interests of the policyholders are protected under the provisions of the Insurance Act of British Columbia and the Financial Institutions Act.

Darin Nessel, CIP
President & Chief Executive Officer

Jason Christopherson, CPA, CGA, BAccS

The actuary has been appointed by the Board of Directors. The actuary is required to carry out a valuation of the policy liabilities recorded by the Company in its financial statements and report thereon to the shareholder. Policy liabilities consist of the provisions for and reinsurance recovery of unpaid claims and adjustment expenses on insurance policies in force, including provisions for salvage and subrogation, and future obligations on the unearned portion of insurance policies in force, including deferred policy acquisition costs. The valuation is made in accordance with accepted actuarial practice, as well as any other matter specified in any direction that may be made by regulatory authorities. The actuary, in his verification of the management information provided by the Company used in the valuation, also makes use of the work of the external auditors. The actuary's report outlines the scope of his work and opinion.

The Company's external auditors have been appointed by the members to conduct an independent and objective audit of the financial statements of the Company in accordance with Canadian generally accepted auditing standards and report thereon to the members. In carrying out their audit, the auditors also make use of the actuary and his report on the Company's policy liabilities. The auditors' report outlines the scope of their audit and their opinion.

Baron Insurance Services Inc.

Actuaries & Consultants

206 Laird Drive Suite 205 Toronto, Ontario M4G 3W4 Phone: (416) 486-0093 Fax: (416) 486-6300

Report of the Actuary

DESCRIPTION OF THE ACTUARY'S ROLE

The actuary is appointed by the Board of Directors of The Mutual Fire Insurance Company of British Columbia pursuant to the Insurance Act. The actuary is responsible for ensuring that the assumptions and methods used in the valuation of policyholder liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. The actuary is also required to provide an opinion regarding the appropriateness of the policyholder liabilities at the balance sheet date to meet all policyholder obligations of the company. Examination of supporting data for accuracy and completeness and consideration of the company's assets are important elements of the work required to form this opinion.

Policyholder liabilities include unearned premiums, unpaid claims and adjustment expenses, the reinsurers' share of unearned premiums and unpaid claims and adjustment expenses, deferred premium acquisition costs, premium deficiency and retrospective adjustments. The actuary uses the work of the external auditors in verifying data used for valuation purposes.

APPOINTED ACTUARY'S REPORT

To the Members of The Mutual Fire Insurance Company of British Columbia

I have valued the policyholder liabilities and the reinsurance recoverables of The Mutual Fire Insurance Company of British Columbia for its statement of financial position at December 31, 2014 and their change in the statement of comprehensive income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policyholder liabilities, net of reinsurance recoverables, makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

Toronto, Ontario
February 19, 2015

Barb Addie
Fellow, Canadian Institute of Actuaries

KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

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Internet www.kpmg.ca

Independent Auditors' Report

To the Members of The Mutual Fire Insurance Company of British Columbia

We have audited the accompanying financial statements of The Mutual Fire Insurance Company of British Columbia, which comprise the statement of financial position as at December 31, 2014, the statements of comprehensive income, changes in members' surplus and reserves, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Mutual Fire Insurance Company of British Columbia as at December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

February 19, 2015
Vancouver, Canada

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

Statement of Financial Position
(Expressed in thousands of dollars)

December 31, 2014, with comparative information for 2013

	Notes	2014	2013
Assets			
Cash and cash equivalents		$ 11,607	$ 6,797
Investments	4	67,027	60,999
Accrued investment income		209	186
Premiums receivable		8,317	6,089
Due from reinsurers		-	827
Reinsurers' share of provision for:			
Unpaid claims and adjustment expenses	5	15,091	8,892
Unearned premium		1,050	-
Deferred policy acquisition costs	6	7,692	5,198
Deferred income tax asset		143	55
Property and equipment	7	1,840	1,852
Intangible assets	8	123	246
		$ 113,099	$ 91,141
Liabilities and Members' Surplus and Reserves			
Amounts payable and accrued liabilities	9	$ 1,341	$ 1,882
Due to reinsurers		2,503	1,674
Taxes payable	10	2,043	1,091
Unearned reinsurance commissions		221	-
Unearned premiums	5	30,300	24,051
Provision for unpaid claims and adjustment expenses	5	39,365	27,011
Loans		-	2
		75,773	55,711
Members' surplus and reserves:			
Reserves	11	500	500
Accumulated other comprehensive income		3,828	2,513
Unappropriated members' surplus		32,998	32,417
		37,326	35,430
Commitments	12		
Contingencies	13		
		$ 113,099	$ 91,141

See accompanying notes to financial statements.

Approved on behalf of the Board:

Director

Director

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

Statement of Comprehensive Income
(Expressed in thousands of dollars)

Year ended December 31, 2014, with comparative information for 2013

	Notes		2014		2013
Premiums written:					
Gross premiums written	14	$	69,768	$	54,111
Less: Reinsurance premiums ceded			(16,823)		(10,193)
Net premiums written			52,945		43,918
Less: Increase in unearned premiums			(5,199)		(2,517)
Net premiums earned			47,746		41,401
Commission income			1,854		509
Service fees			153		22
Membership fees			28		30
			49,781		41,962
Claims and expenses incurred:					
Claims and adjustment expenses			30,157		20,608
Commissions			14,506		12,199
Salaries and benefits	14		3,694		3,380
Administration			1,760		1,698
Premium taxes			1,604		328
			51,721		38,213
Net underwriting income (loss)			(1,940)		3,749
Net investment income	15		2,474		1,971
Other income (expenses):					
Patronage expense			-		(206)
			-		(206)
Earnings before income taxes			534		5,514
Income tax expense (recovery):	10				
Current			41		828
Deferred			(88)		(30)
			(47)		798
Net earnings			581		4,716
Other comprehensive income:					
Net unrealized gains on available-for-sale assets, net of tax of $201 (2013 - $124)			1,315		1,405
Total comprehensive income, for the year		$	1,896	$	6,121

See accompanying notes to financial statements.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

Statement of Changes in Members' Surplus and Reserves

(Expressed in thousands of dollars)

Year ended December 31, 2014, with comparative information for 2013

	Reserves	Accumulated other comprehensive income	Unappropriated members' surplus	Total members' surplus and reserves
Balance, December 31, 2012	$ 500	$ 1,108	$ 27,701	$ 29,309
Net unrealized gains on available for sale assets	-	1,405	4,716	6,121
Balance, December 31, 2013	500	2,513	32,417	35,430
Net unrealized gains on available for sales assets	-	1,315	581	1,896
Balance, December 31, 2014	$ 500	$ 3,828	$ 32,998	$ 37,326

See accompanying notes to financial statements.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

Statement of Cash Flows

(Expressed in thousands of dollars)

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operations:		
Total comprehensive income	$ 581	$ 4,716
Items not involving cash:		
Depreciation and amortization	287	273
Deferred income tax recovery	(88)	(30)
Interest income	(1,949)	(1,616)
Premium tax expense	1,604	328
Income tax expense	41	828
Realized losses (gains) on available-for-sale investments	(715)	(517)
Changes in non-cash operating working capital:		
Premiums receivable	(2,228)	(774)
Due from reinsurers	827	(10)
Deferred acquisition costs	(2,494)	(608)
Reinsurers’ share of unpaid claims and adjustment expenses	(6,199)	65
Reinsurers’ share of unearned premium	(1,050)	-
Provision for unpaid claims and adjustment expenses	12,354	2,052
Unearned premiums	6,249	2,517
Unearned reinsurance commission	221	(6)
Due to reinsurers	829	137
Amounts payable and accrued liabilities	(541)	680
Interest received	1,923	1,631
Income taxes paid	(1,045)	(444)
	8,607	9,222
Financing:		
Repayment of loan	(2)	(14)
Investments:		
Purchase of investments	(14,330)	(20,786)
Proceeds on sale of investments	10,684	13,214
Purchase of property, plant, and equipment	(123)	(221)
Purchase of intangible assets	(26)	(17)
	(3,795)	(7,810)
Increase in cash and cash equivalents	4,810	1,398
Cash and cash equivalents, beginning of year	6,797	5,399
Cash and cash equivalents, end of year	$ 11,607	$ 6,797
Cash and cash equivalents comprised of:		
Cash	$ 7,860	$ 5,462
Cash equivalents	3,747	1,335
	$ 11,607	$ 6,797

See accompanying notes to financial statements.

1. General information:

The Mutual Fire Insurance Company of British Columbia (the "Company") was incorporated without share capital on July 18, 1902 under the Mutual Fire Insurance Companies Act of British Columbia as a mutual insurance company that is domiciled in Canada. It is licensed to write property and casualty insurance in British Columbia, Alberta, Saskatchewan and Manitoba and is subject to the Insurance Act and the Financial Institutions Act of British Columbia, the Insurance Act of Alberta, the Saskatchewan Insurance Act and the Insurance Act of Manitoba.

The registered office of the Company is located at Suite 201, 9366 - 200A Street, Langley, British Columbia, V1M 4B3.

2. Basis of presentation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements were authorized for issue by the Board of Directors on February 19, 2015.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis except available-for-sale investments which are measured at fair value.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments:

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The area of significant estimation in these financial statements is in respect to the provision for unpaid claims and adjustment expenses. Further information over this estimate is included in note 5.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Cash and cash equivalents:

Cash and cash equivalents comprise cash balances and demand deposits with original maturities of three months or less.

(b) Financial instruments:

(*i*) Financial assets:

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss (“FVTPL”) if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company’s documented risk management or investment strategy. Upon initial recognition attributed transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

The Company does not designate any financial assets as financial assets at FVTPL.

3. Significant accounting policies (continued):

(b) Financial instruments (continued):

(*i*) Financial assets (continued):

Held-to-maturity financial assets

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years.

Held-to-maturity financial assets consist of investments in debt securities and mortgage loans.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables consist of cash and cash equivalents, accrued investment income, premiums receivable and due from reinsurers.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented within accumulated comprehensive income in members' surplus. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to net earnings.

Available-for-sale financial assets consist of investments in equity securities, and units in pooled and mutual funds.

3. Significant accounting policies (continued):

(b) Financial instruments (continued):

(*ii*) Financial liabilities:

The Company initially recognizes financial liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Other financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company's other financial liabilities consist of amounts payable and accrued liabilities, due to reinsurers and loans.

(c) Property and equipment:

(*i*) Recognition and measurement:

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in profit or loss.

3. Significant accounting policies (continued):

(c) Property and equipment (continued):

(*ii*) Depreciation:

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in net earnings using the declining balance method over the estimated useful lives of each part of items of property and equipment, depending on which method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

The estimated useful lives for the current and comparative periods are as follows:

Asset	Basis	Rate
Buildings and building components	Declining balance	4 - 20%
Furniture, fittings and equipment	Declining balance	20%
Vehicles	Declining balance	30%

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(d) Intangible assets:

(*i*) Computer software licences:

Computer software licenses acquired by the Company that are not considered integral to the related computer hardware and that have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

(*ii*) Amortization:

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in net earnings on a straight-line basis over the estimated useful lives of five years, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

3. Significant accounting policies (continued):

(e) Leased assets:

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases which are not recognized in the Company's statement of financial position. Lease payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Contingent lease payments are accounted for in the period in which they are incurred.

(f) Recognition and measurement of insurance contracts:

(*i*) Classification of insurance contracts:

Contracts which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiaries are classified as insurance contracts. Insurance risk arises when the Company agrees to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Insurance risk is significant, if and only if, an insured event could cause the Company to pay significant additional benefits. The contracts issued are short-term casualty and property insurance contracts.

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property insurance contracts mainly compensate the Company's customers for damages suffered to their property or for the value of property loss through fire, windstorm, earthquake, etc.

(*ii*) Liabilities and related assets under liability adequacy test:

At every statement of financial position date, the net liability recognized for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of deferred acquisition costs. Where a shortfall is identified, an additional provision is made and the Company recognizes the deficiency profit or loss for the year. All contracts are subject to the liability adequacy test.

3. Significant accounting policies (continued):

(f) Recognition and measurement of insurance contracts (continued):

(*iii*) Unearned premium provision:

The provision for unearned premiums comprises the proportion of premiums written which is estimated to be earned in subsequent financial years, computed separately for each insurance contract using daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

(*iv*) Provision for claims and adjustment expenses:

The provision for claims and adjustment expenses is the reserve for payment of claims and adjustment expenses arising from insurance contracts. The provision for claims incurred and adjustment expenses consists of reserves for reported claims and reserves for claims incurred but not yet reported ("IBNR") losses. In addition, reserves are set up for adjustment expenses, which includes the estimated legal and other expenses expected to be incurred to finalize the settlement of losses. The provision for claims incurred and adjustment expenses are discounted and include a provision for adverse deviations.

Claims and adjustment expenses incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims.

Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Adjustments to claim provisions established in prior years are reflected in the financial statements of the period in which the adjustments are made and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

(*v*) Reinsurance:

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the transferral of its risks. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders. Assets, liabilities and income and expenses arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expenses from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

3. Significant accounting policies (continued):

(f) Recognition and measurement of insurance contracts (continued):

(*v*) Reinsurance (continued):

Only reinsurance agreements that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognized in the same year as the related claim.

Reinsurance premiums for ceded reinsurance are recognized as an expense over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks. The unexpensed portion of ceded insurance premiums is included in reinsurance assets.

The amounts recognized as reinsurance assets are measured on a basis that is consistent with the measurement of the provisions held in respect of the related insurance contracts. Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid and are recorded within due from reinsurers on the statement of financial position.

Reinsurance assets are assessed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due under the terms of the contract and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment is recorded in the statement of comprehensive income.

Reinsurance assets and liabilities are derecognized when the contract rights are extinguished or expire when the contract is transferred to another party.

(*vi*) Deferred policy acquisition costs (“DPAC”):

DPAC are assessed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. When the recoverable amount is less than the carrying value, an impairment loss is recognized in the statement of comprehensive income. DPAC are also considered in the liability adequacy test for each reporting period.

3. Significant accounting policies (continued):

(f) Recognition and measurement of insurance contracts (continued):

(*vi*) Deferred policy acquisition costs ("DPAC") (continued):

Provision is made for unexpired risks arising where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the date of the statement of financial position exceeds the unearned premium provision in relation to such policies after the deduction of any DPAC. In calculating this provision, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DPAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpected risk provision). Any DPAC written off cannot subsequently be reinstated.

(*vii*) Subrogation and salvage recoveries:

In certain circumstances the Company acquires the right to pursue third parties for losses paid to policyholders under insurance contracts or to dispose of the damaged goods. The Company recognizes and disclosed all identifiable and measurable amounts it expects to recover, in the future, from past loss events, as a separate asset on the statement of financial position.

(g) Reserves:

Reserves are made as required by the regulatory authorities in Canada. Increases or decreases during the year to the above-noted reserves are charged to a separate category of members' surplus and reserves as the reserves are not considered as part of the members' unappropriated surplus by the Superintendent of Financial Institutions for British Columbia.

(h) Revenue:

(*i*) Premiums from insurance contracts*:*

Gross written premiums comprise the premiums on insurance contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission to intermediaries. Premiums written include adjustments to premiums written in previous years.

Premiums on reinsurance assumed are included in gross written premiums and accounted for as if the reinsurance was considered direct business. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or reinsurance business assumed.

3. Significant accounting policies (continued):

(h) Revenue (continued):

(*i*) Premiums from insurance contracts (continued):

The earned portion of premiums received is recognized as revenue proportionately over the period of coverage. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognized as an expense in accordance with the pattern of indemnity received.

(*ii*) Fee and commission income:

Fee and commission income comprises fees from membership and insurance contracts. Fees are recognized as revenue over the period that the related service is provided or proportionately over the period of membership, as applicable.

(*iii*) Investment income:

Investment income is recognized on an accrual basis with dividend income recognized on the ex-dividend date.

(i) Income tax:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in net earnings or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(Expressed in thousands of dollars)

3. Significant accounting policies (continued):

(j) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2014, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the Company, with the exception of:

(*i*) IFRS 9 - *Financial Instruments*:

IFRS 9 represents a comprehensive project to replace IAS 39 and deals with classification and measurement of financial assets based on the business model in which they are held and the characteristics of their cash flows. The mandatory effective date for this standard is for fiscal periods commencing January 1, 2018; however, early adoption of the new standard is still permitted. The Company has not yet evaluated the extent of impact of this standard.

(*ii*) IFRS 4 - *Insurance Contracts:*

IFRS 4 changes the basis for measuring insurance contracts. A revised exposure draft for IFRS 4 was issued in June 2014, with a final standard not expected to affect the Company until 2018 at the earliest. IFRS 4 - *Insurance Contracts,* will impact the classification and measurement of insurance liabilities and premiums. The effective date of this standard has not yet been determined. The Company is currently assessing the impact of these standards.

4. Investments:

		2014		2013
Available-for-sale financial assets	$	22,729	$	16,805
Held-to-maturity investments		44,298		44,194
	$	67,027	$	60,999

At December 31, 2014, certain investments with a carrying amount of $2,000,000 (2013 - $1,000,000) are held as security for the bank line of credit (note 16).

(Expressed in thousands of dollars)

5. Insurance contract provision and reinsurance assets:

The provision for unpaid claims and adjustment expenses and related reinsurers' share are estimates subject to variability, and the variability could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are principally based on the Company's historical experience. Methods of estimation have been used which the Company believes produce reasonable results given current information.

(a) Analysis of movements in insurance contract provisions is as follows:

2014	Gross	Reinsurance	Net
Provision for unpaid claims and adjustment expenses, January 1	$ 27,011	$ 8,892	$ 18,119
Effect of discounting and provision for adverse deviation at January 1	$ 760	$ 95	$ 665
Undiscounted provision at January 1	$ 26,251	$ 8,797	$ 17,454
Estimate of ultimate claims incurred for current accident year	39,024	9,452	29,572
Less:			
Payment on current accident year claims	(15,676)	(1,424)	(14,252)
Payment on prior accident year claims	(12,148)	(2,467)	(9,681)
Undiscounted provision before change in prior accident year ultimates	37,451	14,358	23,093
Increase in estimate of ultimate claims incurred for prior year accident years	845	577	268
Undiscounted provision at December 31	38,296	14,935	23,361
Effect of discounting and provision for adverse deviation at December 31	1,069	156	913
Provision for unpaid claims and adjustment expenses, December 31	$ 39,365	$ 15,091	$ 24,274

(Expressed in thousands of dollars)

5. Insurance contract provision and reinsurance assets (continued):

(a) Analysis of movements in insurance contract provisions is as follows (continued):

2013	Gross	Reinsurance	Net
Provision for unpaid claims and adjustment expenses, January 1	$ 24,959	$ 8,957	$ 16,002
Effect of discounting and provision for adverse deviation at January 1	$ 638	$ 90	$ 548
Undiscounted provision at January 1	$ 24,321	$ 8,867	$ 15,454
Estimate of ultimate claims incurred for current accident year	27,856	6,221	21,635
Less:			
Payment on current accident year claims	(11,699)	(2,301)	(9,398)
Payment on prior accident year claims	(10,696)	(2,797)	(7,899)
Undiscounted provision before change in prior accident year ultimates	29,782	9,990	19,792
Decrease in estimate of ultimate claims incurred for prior year accident years	(3,531)	(1,193)	(2,338)
Undiscounted provision at December 31	26,251	8,797	17,454
Effect of discounting and provision for adverse deviation at December 31	760	95	665
Provision for unpaid claims and adjustment expenses, December 31	$ 27,011	$ 8,892	$ 18,119

(b) The following is a summary of the insurance contract provisions and related reinsurance assets as at December 31, 2014 and 2013:

	2014			2013		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Notified claims	$ 32,157	$ 11,958	$ 20,199	$ 20,806	$ 6,124	$ 14,682
Claims incurred but not reported	7,208	3,133	4,075	6,205	2,769	3,436
Outstanding claims provision	39,365	15,091	24,274	27,011	8,893	18,118
Unearned premiums	30,300	1,050	29,250	24,051	-	24,051
Total insurance provisions	$ 69,665	$ 16,141	$ 53,524	$ 51,062	$ 8,893	$ 42,169

(Expressed in thousands of dollars)

5. Insurance contract provision and reinsurance assets (continued):

(c) The following is a summary of the provision for unpaid claims and adjustment expense:

	2014			2013		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Undiscounted claims case reserves	$ 32,157	$ 11,958	$ 20,199	$ 20,806	$ 6,124	$ 14,682
Undiscounted provision for incurred but not reported (IBNR) claims	5,650	2,977	2,673	5,096	2,673	2,422
Undiscounted unallocated loss adjustment expenses	489	-	489	349	-	349
	38,296	14,935	23,361	26,251	8,797	17,453
Effect of discounting	(1,405)	(684)	(721)	(1,065)	(509)	(556)
Provision for adverse deviation	2,474	840	1,634	1,825	604	1,221
Provision for unpaid claims and adjustment expense	$ 39,365	$ 15,091	$ 24,274	$ 27,011	$ 8,892	$ 18,118

(d) Analysis of unearned premium provisions is as follows:

	2014	2013
Provision for net unearned premiums at January 1	$ 24,051	$ 21,533
Net premiums written	52,945	43,918
Reinsurers’ share of unearned premium	1,050	-
Less: net premiums earned	47,746	41,400
Provision for net unearned premiums at December 31	$ 30,300	$ 24,051

(*i*) Assumptions on claims development:

Uncertainty exists on reported claims in that all information may not be available at the reporting date, therefore, the claim cost may rise or fall at some date in the future when the information is obtained. In addition, claims may not be reported to the Company immediately, therefore, estimates are made as to the value of claims incurred but not yet reported, a value which may take months to finally determine. In order to determine the liability, assumptions are developed considering the characteristics of the class of business, the historical pattern of payments, the amount of data available and any other pertinent factors.

5. Insurance contract provision and reinsurance assets (continued):

(d) Analysis of unearned premium provisions is as follows (continued):

(*i*) Assumptions on claims development (continued):

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example: once-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates and delays in settlement. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The method for deriving sensitivity information and significant assumptions did not change from the previous period.

(*ii*) Sensitivity analysis:

The discount rate used by the actuary in determining the provision for unpaid claims and adjustment expenses was 2.65% (2013 - 2.75%). A 1.00% change in the discount factor would change the net provision by $306,580 (2013 - $224,498).

(*iii*) Development claims table:

The following tables show the estimates of cumulative incurred claims net of reinsurance, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

(Expressed in thousands of dollars)

5. Insurance contract provision and reinsurance assets (continued):

(d) Analysis of unearned premium provisions is as follows (continued):

(*iii*) Development claims table (continued):

Net insurance contract outstanding claims provision for 2014:

Accident year	2007	2008	2009	2010	2011	2012	2013	2014	Total
At end of accident year	$ 5,122	$ 5,483	$ 10,206	$ 9,326	$ 15,054	$ 22,024	$ 21,635	$ 29,572	
One year later	5,005	5,679	9,757	9,300	14,407	21,148	21,450		
Two years later	5,004	5,140	10,245	9,610	13,760	21,708			
Three years later	5,179	5,317	10,187	9,229	13,798				
Four years later	4,987	5,364	10,165	9,059					
Five years later	5,061	5,247	10,225						
Six years later	5,039	5,217							
Seven years later	5,022								
Estimate of cumulative claims incurred	5,022	5,217	10,225	9,059	13,798	21,708	21,450	29,572	$ 116,051
Cumulative payments to date	5,015	5,182	9,602	8,623	13,349	18,889	18,246	14,252	93,158
Net undiscounted outstanding insurance claims provision at December 31, 2014	7	$ 35	$ 623	$ 436	$ 449	$ 2,819	$ 3,204	$ 15,320	22,893
Net undiscounted outstanding insurance claims provision with respect to prior accident years									(21)
Total net undiscounted outstanding insurance claims provision at December 31, 2014									22,872
Undiscounted unallocated loss adjustment expenses									489
Effect of discounting									(721)
Provision for adverse deviation									1,634
Total net discounted outstanding insurance claims provision at December 31, 2014									$ 24,274
Current estimate of surplus (deficiency)	100	$ 266	$ -19	$ 267	$ 1,256	$ 316	$ 185		
% surplus (deficiency) of initial reserve	2.0%	4.9%	-0.2%	2.9%	8.3%	1.4%	0.9%		

5. Insurance contract provision and reinsurance assets (continued):

(d) Analysis of unearned premium provisions is as follows (continued):

(*iv*) Expected loss ratios:

The following table sets the expected loss ratios:

	Expected loss ratio	
	2014	2013
Property	55.00%	55.00%
Casualty	78.00%	70.00%
	56.09%	55.81%

6. Deferred policy acquisition costs:

An analysis of the movements in deferred acquisition costs are as follows:

At December 31, 2013	$	4,590
Expenses deferred		11,711
Recognized in net earnings		(11,103)
At December 31, 2014		5,198
Expenses deferred		17,638
Recognized in net earnings		(15,144)
At December 31, 2014	$	7,692

(Expressed in thousands of dollars)

7. Property and equipment:

	Land and buildings	Office furniture	Computer equipment	Vehicles	Total
Cost					
Balance at December 31, 2013	$ 2,254	$ 108	$ 159	$ 80	$ 2,601
Additions	91	84	46	-	221
Disposals	-	-	-	-	-
Balance at December 31, 2014	2,345	192	205	80	2,822
Additions	-	13	110	-	123
Disposals	-	-	65	-	65
Balance at December 31, 2014	$ 2,345	$ 205	$ 250	$ 80	$ 2,880

	Land and buildings	Office furniture	Computer equipment	Vehicles	Total
Depreciation					
Balance at December 31, 2012	$ 671	$ 41	$ 87	$ 41	$ 840
Depreciation for the year	52	25	41	12	130
Balance at December 31, 2013	723	66	128	53	970
Depreciation for the year	52	28	50	8	138
Disposals	-	-	68	-	68
Balance at December 31, 2014	$ 775	$ 94	$ 110	$ 61	$ 1,040
Carrying amounts					
At December 31, 2013	$ 1,622	$ 126	$ 77	$ 27	$ 1,852
At December 31, 2014	1,570	111	140	19	1,840

(Expressed in thousands of dollars)

8. Intangible assets:

		Computer software licenses
Cost		
Balance at December 31, 2012	$	704
Acquisitions		17
Balance at December 31, 2013		721
Acquisitions		26
Balance at December 31, 2014	$	747

		Computer software licenses
Amortization		
Balance at December 31, 2012	$	332
Amortization for the year		143
Balance at December 31, 2013		475
Amortization for the year		149
Balance at December 31, 2014	$	624
Carrying amounts		
At December 31, 2013	$	246
At December 31, 2014		123

9. Amounts payable and accrued liabilities:

		2014		2013
Agents, brokers and intermediaries	$	1,307	$	1,344
Other amounts payable and accrued expenses		34		538
	$	1,341	$	1,882

(Expressed in thousands of dollars)

10. Income taxes:

Total income tax expense consists of the following:

		2014		2013
Current tax expense:				
Current year	$	41	$	828
Deferred tax recovery		(88)		(30)
Total income tax expense	$	(47)	$	798

Reconciliation of effective tax rate:

	2014			2013		
Net earnings before income tax		$	534		$	5,514
Income tax at combined federal and provincial statutory income tax rate	25.8 %	$	138	25.8%	$	1,423
Non-deductible expenses	0.9 %		5	0.1 %		3
Non-taxable dividend income	(20.4)%		(109)	(1.6)%		(89)
Non-taxable farming income	(5.2)%		(28)	(9.6)%		(532)
Other	(9.9)%		(53)	(0.1)%		(7)
	(8.8)%	$	(47)	14.5%	$	798

11. Reserves:

Pursuant to the guidelines set by the Superintendent of Financial Institutions of British Columbia, the Company has set aside an earthquake premium reserve of $500 (2013 - $500).

12. Commitments:

The Company is committed to operating leases for office equipment. The future minimum lease payments under these non-cancelable leases are as follows:

		2015		2014
Less than 1 year	$	27	$	21
Between 1 and 5 years		77		72

(Expressed in thousands of dollars)

13. Contingencies:

The Company, like all other insurers, is subject to litigation in the normal course of business. The Company does not believe that such litigation will have a material effect on its net earnings and financial condition.

14. Related parties:

(a) Key management personnel compensation:

Key management personnel of the Company includes all directors, executives, and senior management.

In addition to their salaries, the Company also provides non-cash benefits to certain employees and contributes to a registered retirement savings plan of eligible staff.

Key management personnel compensation comprised:

		2014		2013
Salaries and benefits	$	1,205	$	957
Registered savings plan contributions		66		60
	$	1,271	$	1,017

(b) Key management personnel and director transactions:

The aggregate value of transactions relating to key management personnel and directors over which they have control or significant influence were as follows:

		2014		2013
Management insurance premiums	$	7	$	5
Directors insurance premiums		67		67
	$	74	$	72

(Expressed in thousands of dollars)

15. Net investment income:

	2014	2013
Recognized in net earnings		
Interest income on held-to-maturity investments	$ 1,398	$ 1,195
Interest income on deposits	9	15
Dividend income on available-for-sale financial assets	541	406
Net realized gain (loss) on investments	715	517
Investment management fees	(189)	(162)
Net investment income	$ 2,474	$ 1,971

16. Line of credit:

The Company maintains a line of credit agreement with a third party lender for up to $2,000 (2013 - $1,000). No amounts were drawn on the line of credit as at December 31, 2014 (2013 - nil).

17. Financial and insurance risk management:

(a) Overview:

The Company has exposure to the following risks arising from its insurance operations and from its use of financial instruments:

- insurance risk;
- credit risk;
- liquidity risk;
- currency risk;
- interest rate risk; and
- other price risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Company's primary long-term risk is that the Company's assets will fall short of its future liabilities (including claims of insured parties). The main objective of financial risk management is to maintain assets, primarily through a diversified portfolio of investments to ensure sufficient liquidity and value to meet the obligations when they fall due.

17. Financial and insurance risk management (continued):

(b) Risk management framework:

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Board of Directors oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

(c) Insurance risk:

(*i*) Terms and conditions of insurance contracts:

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below.

The commercial segment underwrites the risks of enterprises from small businesses to large corporations. The personal segment provides insurance to the general public in their personal capacities.

(A) Property:

Property coverage provides indemnity for loss of or damage to immovable and movable property caused by perils such as fire, lightning, explosion, weather, water, earthquake and malicious damage. The fire classes also include business interruption policies which insure the loss of profits incurred by a business as a result of loss or damage to the insured property by these perils.

(B) Accident:

Accident coverage provide indemnity for loss of or damage to mainly movable property for losses caused by crime, certain accidental damage such as damage to goods in transit or accidental damage to glass. Included under the accident classes are legal liabilities an insured may incur as a result of accidental damage to third party property or accidental death or injury to a third party caused by the insured.

17. Financial and insurance risk management (continued):

(c) Insurance risk (continued):

(*i*) Terms and conditions of insurance contracts (continued):

(C) Personal accident:

Personal accident coverage provides compensation arising out of the permanent or temporary total disability of the insured or possibly the employees of a business. Such disability is restricted to certain accidents and does not provide the wider coverage available from the life insurance industry.

(*ii*) Insurance risk and policies for mitigating insurance risk:

The primary activity of the Company relates to the assumption of the risk of loss from events involving persons or organizations. Such risks may relate to property, accident, personal accident and other perils that may arise from an insurable event. As such the Company is exposed to the uncertainty surrounding the timing and severity of claims under insurance contracts.

The principal risk is that the frequency and severity of claims is greater than expected and that the Company does not charge premiums appropriate for the risk accepted. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated.

The Company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, management of reinsurance and monitoring of emerging issues. These actions are described below:

(A) Underwriting strategy:

The Company underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks spread over a large geographical area. The underwriting strategy is set out in an annual business plan that determines the classes of business to be written, the territories in which business is to be written and the industry sectors to which the Company is prepared to accept exposure. This strategy is implemented by individual underwriters through limits for underwriters by line size, class of business, territory and industry in order to enforce appropriate risk selection within the portfolio. The single largest gross risk, based on estimated maximum loss, any one underwriter can commit the Company is a maximum of $5,000 (2013 - $5,000).

Adherence to the underwriting authorities is measured through a series of exception reports that are monitored on a regular basis covering line size, territory, class and industry. In addition, management meets regularly to review underwriting information including premium income and loss ratios.

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17. Financial and insurance risk management (continued):

(c) Insurance risk (continued):

(*ii*) Insurance risk and policies for mitigating insurance risk (continued):

(B) Reinsurance strategy:

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company enters into a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure of the Company on any one risk to less than $350 (2013 - $350).

The Company reflects reinsurance balances on the statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders. To mitigate this risk, the reinsurance business is transacted in accordance with regulation by the Office of the Superintendent of Financial Institutions Canada and the Insurance Companies Act of Canada. All reinsurance arrangements are approved by the Board of Directors.

(C) Concentrations of insurance risk and policies mitigating concentrations:

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Company's resources. The Company monitors the concentration risk by geographical segment and class of business.

(*iii*) Exposure relating to catastrophe events:

The Company sets out the total aggregate exposure that it is prepared to accept in certain territories to a range of events such as natural catastrophes. The aggregate position is reviewed annually. The Company uses a number of modeling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programs and the net exposure of the Company.

The Company considers that its most significant exposure would arise in the event of an earthquake. This analysis has been performed through identifying key concentration of risks based on different classes of businesses exposed in the event of such an incident. The Company's policies for mitigating catastrophe risk exposure include the use of both proportional and excess-of-loss reinsurance. In the event of a major catastrophe such as an earthquake, the net retained loss would be a maximum of $500 (2013 - $500).

The Company has purchased excess-of-loss reinsurance for catastrophe events that provides indemnity to the Company to a maximum of $125,000 (2013 - $85,000)

17. Financial and insurance risk management (continued):

(c) Insurance risk (continued):

(*iii*) Exposure relating to catastrophe events (continued):

Reinsurance treaties have been subscribed to by a number of reinsurance companies on the open market through the broker, Willis Re. The reinsurance, however, does not relieve the Company of its primary obligation to policyholders. If any reinsurers are unable to meet their obligations under the related agreements, the Company would be liable to its policyholders for unrecoverable amounts. To minimize the possibility of a reinsurer being unable to meet their obligations, the Company has only used reinsurers that are rated by the AMBEST rating agency at A- or higher.

The Company's objectives, policies and processes for managing liquidity, credit, interest rate and insurance risk and the methods used to measure insurance risk have not changed materially from the prior year.

(*iv*) Other risks and policies mitigating these risks:

Insurance companies are exposed to the risk of false, invalid and exaggerated claims. Fraud detection is primarily managed through vigilant monitoring activities of experienced claims adjustors.

(d) Credit risk:

Credit risk is the risk of loss if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from reinsurers, insurance brokers, policyholders and investment securities.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each reinsurer, insurance broker and policyholder. The Company regularly evaluates the financial strength of its reinsurers to ensure that the reinsurers have the capacity to fulfill their obligations.

Credit risk for insurance brokers and policyholders is managed through continual review of receivables and active collection of overdue amounts.

Credit risk for investments is managed by investing only in liquid securities and only with counterparties that have a credit rating of at least BBB from Standard & Poor's and Baa from Moody's. Management actively monitors credit ratings and given that the Company only has invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations.

The carrying amount of financial assets as at December 31, 2014 and 2013, best represents the maximum exposure to credit risk for each respective year.

(Expressed in thousands of dollars)

17. Financial and insurance risk management (continued):

(d) Credit risk (continued):

As at December, 2014 and 2013, the Company's credit risk exposure for equity and debt securities within the investment portfolio, grouped by credit risk rating of Standard & Poor's, was as follows:

2014	AAA	AA	A	BBB	N/A	Total
Fixed income	$ 1,270	$ 26,350	$ 3,114	$ 2,770	$ 7,700	$ 41,204
Short-term investments	151	2,971	221	50	2,451	5,844
Equities			762	22	19,195	19,979
	$ 1,421	$ 29,321	$ 4,097	$ 2,842	$ 28,346	$ 67,027

2013	AAA	AA	A	BBB	N/A	Total
Fixed income	$ 3,088	$ 22,928	$ 4,033	$ 2,535	$ 8,110	$ 40,694
Short-term investments	-	3,862	200	-	2,064	6,126
Equities	-	-	328	358	13,493	14,179
	$ 3,088	$ 26,790	$ 4,561	$ 2,893	$23,667	$ 60,999

The aging of premiums receivable at the reporting date was:

	2014	2013
Not past due	$ 7,994	$ 5,937
Past due (>90 days outstanding)	323	152
	$ 8,317	$ 6,089

As at December 31, 2014 and 2013, the Company did not have any impaired receivables, held-to-maturity investments, or available-for-sale financial assets.

(e) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations as they come due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

17. Financial and insurance risk management (continued):

(e) Liquidity risk (continued):

The Company monitors its cash flow requirements and optimizes its cash return on investments. Typically the Company ensures that it has sufficient cash on demand to meet expected expenses for a period of 60 days; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

In addition, the Company maintains a line of credit agreement with its lender to provide additional cash resources to the Company to primarily manage the timing of payment of claims and payment of premiums by our insured.

As at December 31, 2014 and 2013, the majority of the Company's financial liabilities were due within one year.

(f) Currency risk:

Currency risk is the risk that the fair value of the Company's financial instruments will fluctuate due to changes in foreign exchange rates. The Company's exposure to foreign currency risk was limited to its investment portfolio which invests in Canadian and US equity securities. The amount of US equity securities as at December 31, 2014 was $7,138 (2013 - $6,102).

A strengthening or weakening of the Canadian dollar of 5% against the US dollar at December 31, 2014 would have decreased or increased respectively net earnings and members' surplus by the $378 (2013 - $305) assuming all other variables remain constant.

(g) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of interest-bearing financial instruments, such as bonds, will fluctuate due to changes in the levels of market interest rates. At the reporting date, all of the Company's interest-bearing financial instruments and loans had fixed rate interest terms. Additionally, the Company intends to, and has the ability to hold these instruments to maturity. Therefore the Company is not exposed to significant interest rate risk.

(h) Other price risk:

Other price risk arises from the Company's available-for-sale equity securities. Management of the Company monitors the mix of debt and equity securities in its investment portfolio. Material investments within the portfolio are managed on an individual basis and all transactions are monitored for compliance with the Company's approved investment policy. The primary goal of the Company's investment strategy is to optimize investment returns within its risk parameters; management is assisted by external advisers in this regard.

17. Financial and insurance risk management (continued):

(h) Other market price risk (continued):

All of the Company's investments in equities are listed on major stock exchanges located either in Canada or the US. For such investments classified as available-for-sale, a 5% change in the TSX Composite Index and S&P 500 at the reporting date would have increased or decreased members' surplus and reserves by approximately $1,136 after tax (2013 - $840).

18. Fair values of financial instruments:

(a) Fair value hierarchy:

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

Fair value measurements of the investment assets and liabilities are based on inputs from one or more levels of a fair value hierarchy. Each level is based on the transparency of the inputs used to measure the fair values of assets and li abilities. The three levels of the fair value hierarchy are:

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

(Expressed in thousands of dollars)

18. Fair values of financial instruments (continued):

(a) Fair value hierarchy (continued):

(*i*) Financial instruments measured at amortized cost:

The Company's: cash and cash equivalents, accrued investment income, premiums receivable, due from reinsurers, amounts payable and accrued liabilities, due to reinsurers and loans are classified as level 2 in the fair value hierarch because, while settlement amounts or process are available, there is no active market for these instruments.

(*ii*) Financial instruments measured at fair value:

The following table illustrates the classification within the fair value hierarchy of the financial instruments measured at fair value by the Company:

2014		Level 1		Level 2		Level 3
Available-for-sale investments	$	21,729	$	1,000	$	

2013		Level 1		Level 2		Level 3
Available-for-sale investments	$	16,805	$	-	$	-

For the year ended December 31, 2014 and 2013, there were no significant transfers between Levels 1 and 2.

In 2014 the classification of financial instruments for purposes of determining the fair value hierarchy was changed from investment types to whether the investments are held as units of pooled funds or held directly by the Company. The 2013 comparative numbers have been reclassified to conform to the new presentation.

(b) Fair value of financial instruments:

The Company uses widely recognized valuation methods for determining the fair value of financial instruments such as investments in pooled funds, where fair value is based on the underlying net asset value of the respective pooled fund as determined by the underlying fund manager. Observable prices and model inputs are usually available in the market for listed equity securities, and for pooled funds. The availability of observable market prices and model inputs reduces the need for management judgment and estimation and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets. During 2014, the Company purchased units in a Limited Partnership. This investment has been classified as level 2 and management has determined the cost of the investment to approximate fair value for 2014.

(Expressed in thousands of dollars)

18. Fair values of financial instruments (continued):

(c) Fair value of financial instruments:

	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value:				
Available-for-sale investments	$ 22,729	$ 22,729	$ 16,805	$ 16,805
Assets and liabilities carried at amortized costs:				
Cash and cash equivalents	$ 11,607	$ 11,607	$ 6,797	$ 6,797
Held-to-maturity investments	44,298	45,522	44,194	44,760
Accrued investment income	209	209	186	186
Premiums receivable	8,317	8,317	6,089	6,089
Due from reinsurers	-	-	827	827
Amounts payable and accrued liabilities	(1,341)	(1,341)	(1,882)	(1,882)
Due to reinsurers	(2,503)	(2,503)	(1,674)	(1,674)
Loans	-	-	(2)	(2)
	$ 83,316	$ 84,540	$ 71,340	$ 71,906

19. Capital management and statutory requirements:

The Company's objectives when managing capital, consisting of members' surplus and reserves, are to comply with the insurance capital requirements required by the Company's regulator of Insurance of British Columbia; safeguard the Company's ability to continue as a going concern; and provide an adequate return on capital by pricing insurance and investment contracts commensurately with the level of risk.

The Company's regulator is the Financial Institutions Commission ("FICOM") which sets and monitors capital requirements for the Company's operations. The Company is required to maintain a level of sufficient capital to achieve a target of 150% of a minimum capital test ("MCT"). As at December 31, 2014 and 2013, the Company was in compliance with these requirements.